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The Canadian Wheat Pool

An Address

—By—

W. SANFORD EVANS

Before the Grain Dealers' National Association
in Convention at Buffalo.

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WHAT is known as the Canadian Wheat Pool is composed of three co-operative companies, incorporated under provincial statutes, which sell their wheat through a common selling agency, with a Dominion charter, jointly owned by the three provincial companies. The three provincial companies are:—Alberta Co-operative Wheat Producers, Ltd., Saskatchewan Co-operative Wheat Producers, Ltd., and Manitoba Co-operative Wheat Producers, Ltd. The central selling agency is Canadian Co-operative Wheat Producers, Ltd. The Saskatchewan and Manitoba companies also operate coarse grain pools along the same lines as the wheat pools and with the same selling agency.

For the purposes of this address it will not be necessary to deal with the history of co-operative trading or discuss its general economic problems. On the scale and on the plans of the Canadian Wheat Pool, co-operation in grain marketing is, however, a notable advance in force into a field in which previous minor movements have not succeeded in securely entrenching themselves. I shall, therefore, attempt to make clear the general conditions under which this important experiment is being tried, the nature of the experiment and the developments up to this date. Incidental mention will be made of certain questions that are naturally raised by the facts; but the period of time in which the Canadian Pool has been operating is so short that it is probable there is not yet sufficient evidence upon which any of these questions can be conclusively answered.

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What, then, are the general conditions under which this pool experiment is being tried out? In the first place, grain handling and grain trading in Canada have been for years under special government regulation. Almost every serious criticism or suspicion on the part of the grain producers raised during the past 20 years has been the subject of investigation by government commissions, and partly on the reports of these commissions and partly on direct representations from the producers and from the grain trade, a system of regulation under law has been built up. This regulation is exercised by the Dominion Government under a statute entitled "The Canada Grain Act", through a board of three commissioners known as the "Board of Grain Commissioners for Canada." Regulation in Canada is therefore a Federal matter and in the hands of a single administrative body. Questions have been raised from time to time as to the constitutional right of the Dominion to exercise some of the powers claimed in this act, which may fall within the exclusive jurisdiction of the Provinces, but the advantages of uniform control by a single body, as against multiform control by several provincial boards, are so obvious that there has been no disposition to seriously challenge the position of the Dominion.

In brief, the Dominion, through the Board of Grain Commissioners, regulates all cash transactions between traders and producers, fixing the forms of contracts and requiring all these primary traders to take out annual licenses from the Board and to furnish bonds. All elevator owners in Canada are also licensed and controlled by the Board and all must operate within the maximum charges for services fixed from year to year by the Board. The railways are also under control with respect to car distribution, the providing of loading platforms, etc.

The Dominion Government, either directly or through harbour commissions, has constructed several terminal and seaboard elevators, which are operated in competition with privately owned elevators, but under the same regulations.

The Board of Grain Commissioners has the exclusive right in Canada to grade grain, and all grain that passes

through inspection points must be graded. These are so situated that no western grain can enter commercial channels without government inspection. At inspection points and in and out of terminal elevators, all grain must be weighed by officers of the Board.

Over the merchandising of grain, beyond the primary stages, there is no special regulation. No commission in its findings has sustained charges against the general marketing system and no government in Canada has yet found reason to pass special laws restricting grain exchange trading. Since 1908 the Winnipeg Grain Exchange has operated as an unincorporated, voluntary association.

The second condition to be noted is that in the grain trade in Canada, as elsewhere, competition is exceedingly active and keen. This is true even in the primary operations in which the producer has the additional safeguard of government regulation. When the stage of merchandising and grain exchange transactions is reached, there is not only a mass of local competition but the field of world competition is entered. Two of the strongest grain companies in Canada and keenest competitors, have been farmers' non-pool companies, the Saskatchewan Co-operative Elevator Company and United Grain Growers, Ltd. Competition in the grain trade, as in every other sphere, tends to improve service and decrease margins and charges.

The third general condition is the high development and organization of grain trading. It is undoubtedly true that in its system as a whole, including the means of providing for future needs and for protecting purchases or sales, grain trading is the most complete, serviceable and most smoothly working marketing system the world has yet worked out.

In particular, it is to be noted that grading and bulk handling, which are essential to the successful marketing of any commodity, were already fully developed and fully adequate and efficient. The chief accomplishments of co-operative enterprises in the past have been in supplying these essentials where they were lacking, but under the

conditions of grain handling in Canada this field was closed to the Pool.

Into this highly organized, highly competitive and regulated business, the farmers of western Canada undertook to introduce advanced co-operative principles. To understand how force could be generated sufficient to make possible the putting through of so great a work of organization as the Canadian Wheat Pool, it is necessary to realize the historical setting. During the later war years there had been direct government price control or merchandising of wheat in Canada and prices had been high. The restoration of the open market system coincided with the beginning of world price deflation in the summer of 1920. Cereal prices at first fell even more rapidly than those of most other commodities. In the disappointment and alarm over this development, a powerful demand was made by the producers of Western Canada for the re-establishment of the Wheat Board, a government body which had operated a compulsory wheat pool in 1919-1920, in the hope that the restoration of the method of marketing would bring back the high prices, or at least check the decline. That the readjustment of values was due to world causes and was irresistible, was disregarded. The agitation for a wheat board continued unsuccessfully for three years. During all this period the effects of general deflation continued to be severely felt in agriculture and also in every other line of business. Early in the period the idea of a voluntary pool had been suggested as an alternative in case of failure to secure a compulsory pool, and in July, 1923, this alternative was decided upon. Geographical conditions in Canada, where most of the grain passes through the neck of a bottle, may make the idea of control by a government or voluntary pool seem to the public more feasible than would be the case in other countries.

Early in July, 1923, the boards of the United Farmers of Alberta, the United Farmers of Manitoba and the Saskatchewan Grain Growers Association, each passed resolutions adopting the policy and at a conference of representatives of these three bodies, held in Regina, July 23-24, it was

decided to proceed with the establishment of a voluntary contract pool on a provincial basis, with one central selling agency, each association to be responsible for the organization in its province. The United Farmers of Alberta were the first to complete their organization and on October 29, 1923, commenced operations with approximately 46 per cent of the wheat acreage of the province signed up under their five-year agreement. Neither Saskatchewan nor Manitoba was able to begin operations until the following year, and that the expiry date of all contracts should be the same, the end of 1927, the term of the contracts in these two provinces was made four years.

Plan of Organization

The plan of organization and form of contract in all three pools is almost identical. The membership consists of all those directly or indirectly engaged in the production of wheat as owners, producers, share crop producers, tenants, lessors or lessees of land, who sign the pool contract. Under the agreement the Pool is empowered to act as the sole and exclusive agent, factor and attorney in fact for the grower to handle all wheat produced by him, except such as may be required for his own seed or food, and to sell the same to such persons and at such times and upon such conditions and terms as it may deem fair and advisable and in the best interests of the grower. Should the grower fail to deliver all his wheat to the Pool, he agrees to pay liquidated damages at the rate of 25 cents per bushel for all wheat not so delivered and also agrees that the Pool shall be entitled to secure an injunction to prevent further breach of the contract. The Pool is entitled to meet out of moneys realized, all proper charges and expenses incurred and also to deduct 1 per cent of the gross selling price for the purposes of building up a commercial reserve, or working capital, and not exceeding 2 cents per bushel for investment at the discretion of the Pool in securing elevators and other facilities for handling grain, or an interest in companies possessing such facilities.

To the grower, the Pool agrees, as soon as practicable after the delivery of wheat, to make an advance at such rates as it shall deem proper, and then from time to time as funds are available, make further payments until each grower has received his proportion of the net proceeds on the basis of number of bushels delivered and grade. Freight rates to the terminals, spreads between grades and certain country elevator and service charges are deducted from the advance payment. Interim payments are in equal amounts per bushel to all shippers on all grades, unless experience should show that the original spreads had in the case of any grades been seriously miscalculated. From the final payment there are deducted the commercial and elevator reserves and overhead expenses. The basis of payment to every member in all provinces is the same according to grade. Differences in freight rates and certain differences in charges on storage and street wheat and on wheat loaded over the platform, and in the overhead of the different pools, make the only important differences in net returns to different members.

The Central Selling Agency was incorporated in 1924 and on August 20 of that year an agreement was entered into between the selling agency and the three provincial Pools, under which the latter agreed to deliver to the selling agency at the terminals of Fort William-Port Arthur and Vancouver, all wheat delivered to them, the Pools, under penalties of liquidated damages, and under which they conferred upon the selling agency all powers and rights with regard to the handling and disposition of the wheat which they had obtained under the agreement with the growers.

The board of the selling agency was to consist of nine members, three nominated by each of the Pools. The Central Selling Agency, after deducting proper charges and expenses, distributes to the Pools, in instalments to correspond with payments to be made to members, the entire proceeds of the sale of the wheat in proportion to the number of bushels delivered by each Pool, and the Pools in turn, after making the further necessary deductions, distribute to the growers.

Pool Elevator Policy

It is Pool policy to acquire, through subsidiary companies, country and terminal elevator facilities. The Alberta Pool now owns 18 country elevators, with 12 in course of construction, and holds a lease of a terminal elevator at Prince Rupert. The Manitoba Pool has been endeavoring to secure the elevators in Manitoba owned by United Grain Growers, Ltd., so far without success. It already owns 30 country elevators, of which 17 were constructed in 1925-26. The Saskatchewan Pool has purchased the elevator system of the Saskatchewan Co-operative Elevator Company and on August 1 took over from that company 451 country elevators in Saskatchewan, three terminals at Fort William-Port Arthur, one of which was held under lease, and one terminal at Buffalo. This Pool now possesses 573 country elevators, giving it undoubtedly the largest equipment for the primary handling of grain of any company in the world. The total number of country elevators in the three provinces is some 4,300 and Pool interests now control one in every seven.

Under the direction of the Central Selling Agency, two terminal elevators at Fort William-Port Arthur were leased in 1924 and one was purchased in 1925, so that with the terminals secured from the Saskatchewan Co-operative Elevator Company, Pool interests now control about 17,450,000 bushels capacity at the head of the lakes, out of a total capacity of 60,000,000 bushels.

Pool country elevators do not exist at all points or are inadequate, and yearly agreements have been made with the line elevator companies, under which, for certain stated charges, which bear a relation to the charges and margins customary in the trade, the line elevator companies receive and forward all Pool wheat delivered to them and make the advance payments, financing these on their own credit and being repaid by the Pool on delivery of the grain at a terminal. The attitude of the grain trade to the Pool has at all stages been one of readiness to conclude very reasonable arrangements for the use of the trade's facilities. The

Pool has been given every opportunity by the trade to freely develop its plans and test its theories.

During the past year, special emphasis has been laid by the Pool upon its elevator policy and much less has been said of its selling policy. The ultimate objective would seem to be the acquiring of elevator facilities sufficient to handle all Pool wheat in all primary and secondary positions. Judging from public statements of Pool officials, it would appear, however, that the principal immediate interest of the management in country elevators is because they form new points of contact with members and should make easier the work of collecting all grain under contract and of getting new contracts. The president of the Saskatchewan Pool, who is also president of the Central Selling Agency, in an address on August 8, last, said:

"I believe the success of our organization from now on will depend in large measure on the satisfaction we can give through our elevator company, through that point of contact established between our organization and the farmers."

There is no reason to think Pool officials believe they can manage country elevators better than private companies or on lower charges on the average. Their present policy, however, is to buy or build an elevator only at a point where at least 10,000 acres are under contract, so that their elevators will be assured of a turn-over two or more times the average, which should for the time being enable them to show lower than average costs. For temporary effect, the Saskatchewan Pool this year declared a patronage dividend to those members who had shipped through the Pool elevators. In the address above referred to, President McPhail said:

"While I do not desire to enter into a discussion of policy in connection with this matter, or discuss whether such a system is good as a permanent policy, I would just say that it was done to bring home to the Pool farmers as forcibly as possible the value of patronizing their own elevators. As to whether

that policy will be continued or whether it is a good policy, I am not prepared to say."

Another object in acquiring country elevators is to feed Pool terminals. The line companies ship Pool grain to their own terminals and deliver it there. Because of the long period of storage during which navigation is closed, and because mixing can be done in them, terminal elevators have been more profitable than country elevators, and the Pool desires to secure that profit.

It is not possible in this address to discuss the many questions raised by the Pool's elevator policy, such as whether it is consistent with the Pool principle to derive the capital by deductions from all members and distribute surpluses, or, indeed, services, only to a few, particularly when such surpluses as are derived from country elevators probably could never be made general if service was given to all and average costs incurred. Space has been given to this aspect of the subject, however, because it is at present the chief aggressive phase of Pool activities.

Magnitude of Pool Operations

According to statements by Pool officials, there was under contract in the three prairie provinces on July 31, 1926, 14,378,981 acres, which represents approximately 66 per cent of the total 1926 wheat acreage in these provinces. The percentages in the different provinces were approximately 73 in Saskatchewan, 56 in Alberta and 51 in Manitoba. The membership was 36,428 in Alberta, 73,661 in Saskatchewan and 18,433 in Manitoba, a total of 128,522.

Steady increase in acreage and membership has been recorded. The Alberta Pool started operations in 1923 with 25,601 members and 2,416,413 acreage (as at November 10, 1923). The Saskatchewan Pool started in 1924 with 45,725 members and 6,330,000 acreage (as at June 26, 1924), and the Manitoba Pool in 1924 with 9,216 members and 735,866 acreage (as at December 31, 1924). The increase of the 1925-26 figures over those of 1924-25 was approx-

66% acreage
handled by
30% terminal
elevators
capacity
14% country
elevator
capacity

imately 20 per cent in both membership and acreage for the three provinces combined.

During the year 1925-26 there was delivered to the Pool the very large quantity of 187,500,000 bushels of wheat. By provinces the deliveries were: from Alberta 45,000,000 bushels, from Saskatchewan 130,000,000 bushels and from Manitoba 12,500,000 bushels. In 1924-25, with a much smaller crop and somewhat smaller membership, the deliveries of wheat were 81,400,000 bushels.

In the crop year 1925-26, inspections of wheat in the three provinces totalled 354,000,000 bushels and this would closely correspond with total farmers' deliveries. The proportion delivered to the Pool was therefore about 53 per cent, whereas Pool membership covered 66 per cent of the acreage. The acreage as reported by members may have been somewhat over-estimated, but it is admitted that one of the most serious problems of the Pool is to secure full delivery from its members. The temptation of a big bulge in prices is very strong to a man who has been looking to receive only an average price, and there has undoubtedly been an undetermined amount of what has become known as "bootlegging in wheat." All the Pools have greatly increased their field forces, an important part of the duties of which is to keep a check on deliveries. One of the provincial pools disclosed figures at its annual meeting showing that several thousands of cases had been inquired into during the year, and authority was asked to institute prosecutions in a limited number of cases.

That the effects of the sudden development of this great organization, controlling vast quantities of grain, have not been more disturbing to private traders in Canada than has been actually the case, is partly due to the fact that most of the Pool grain is still handled through trade elevators at approximately regular charges and partly to the fact that an important proportion of the trade has not for years been in private hands but in the hands of the two large farmers' co-operative companies, one of which has already been bought out by the Pool and most of the shareholders of the other are now Pool members. The Pool is,

however, bigger, except in number of country elevators owned, than were the two combined.

What effects have followed from the organization and operation of the Pool? Probably nothing has yet been conclusively proven or disproven. All that can be done at this stage is to set down certain of the principal objects sought by the Pool and then to examine the facts and figures of the last two years to see to what extent, if at all, progress towards accomplishment is observable.

Objects of the Pool

In the preamble to the agreement with the grower, in addition to the general purpose of promoting co-operative enterprise, two specific objects are mentioned: namely, "eliminating speculation in wheat" and "stabilizing the wheat market."

In representations made by advocates of the Pool and in the expectations of those who signed, other objects or results were also prominent:

1. In accordance with the principle of orderly marketing, the movement of wheat was to be more evenly distributed throughout the year, to the advantage of the farmer, who could deliver at his convenience and so as not to interfere with any urgent work on the farm, and to the advantage of the railways by reduction of costs, which would, in turn, make possible a reduction of rates.

2. In the minds of a large proportion of the members was the idea that a new system was to be substituted for the Grain Exchange system and, so far as Canada at least was concerned, would in time displace it.

3. More money was to be realized by members and that in four ways:—First, by the economies of mass handling and the greater bargaining power it would give with respect to such expenses as lake and ocean freights; second, by elimination of the profits previously taken by the grain trade; third, by a more even distribution of sales throughout the season, which it was supposed would prevent depression of prices at some periods and on the other hand

would secure for the benefit of all members their share of the advantage of sales on advances; and fourth, although this was less explicitly stated, it was hoped that by the control of large quantities and by the method of marketing, the world's level of prices could be influenced in favor of the producer. On the programme of the next International Pool conference, to meet in Kansas City, March 16, 1927, one of the subjects for discussion is "How can we get a better price for our wheat?"

It may be well briefly to discuss each of these objects in the light of such facts as are known:—

Eliminating Speculation—No effects of this policy are yet discernible. Indeed, it was never clear how it was proposed to accomplish this object. The Pool itself, as a selling agent, incurs no risk, for it is obligated to pay over only what it receives. The selling risk, however, remains with the grower, and all buyers from the Pool continue to have just the same risks as any other buyers. In March, 1925, to mention one instance, the Pool admits having bought in the open market, for the purpose of sustaining prices, grain it did not need, which is a form of transaction generally classed as speculative. Public speculation in the wheat markets was a bigger factor in the two Pool years than at any time during the previous 15 years.

Stabilizing the Wheat Market—Here again results are not apparent. The market was not stable during the past two years, the spread between high and low in the Winnipeg cash market having been 51½ cents in 1925-6 and 84½ cents in 1924-5. If one of the war years and the year of general world deflation, 1920-1, be excluded, such wide spreads were previously unknown in the Winnipeg cash market.

More Even Movement—Although some Pool advocates expected that their farmers would distribute the delivery of their grain more evenly and that the railways would have a less difficult peak load to carry, there were others outside the Pool who thought the opposite effects might be produced and that farmers might deliver all their grain right from the thresher to secure the advance payment, leaving the Pool

to make the best possible disposition of it afterwards. What have been the facts during the two years? The heaviest delivery months in western Canada have regularly been September, October and November, and in these three months of 1924-5 there was delivered 68.5 per cent of the total deliveries during the crop year. During 1925-6, the deliveries were 71.7 per cent and for the two Pool years the average was 70.1 per cent. In 1923, the last year before the Pool was in full operation, the percentage was 69.8, and for the last four years before the Pool the percentage was 70.3. If any other group of months during the crop year be taken, the comparison is much the same. No change, therefore, has become apparent in the method of delivering the Canadian crop. This being the case, the problem of primary movement by the railways has also been unaltered.

Coming to the secondary movement, by which grain is exported from Canada or distributed to eastern mills, no new tendency has yet appeared. With regard to exports, and taking the four months, September-December, to cover the whole autumn movement, 55.4 per cent of the year's exports of wheat went out in this period of 1924-5 and 54.3 per cent in 1925-6, whereas the percentage in 1923 was 53.3 and for the four year pre-Pool period an average of 58.3. This higher figure is accounted for almost entirely by the movement in one year, 1922-3, when the crop was early and comparatively small. If the last three months of the crop year be taken, May-July, to show the portion held back for export in the last quarter, the figures show 25.7 per cent in 1924-5 and 22.9 per cent in 1925-6, whereas in 1923-4 the percentage was 27.8 and for the four-year period an average of 22.5, the latter being again affected by the heavy early movement of 1922-3. There is no evidence in these figures that Pool policy has done anything to modify the early rush of wheat out of Canada or to hold back any bigger proportion to the end of the season.

Exports from Canada, as they appear in the Customs returns, are not necessarily a good index of the way in which Canadian wheat moves to importing countries, the reason being that before the close of navigation large quantities are

placed in Buffalo and other United States positions to provide ocean shipments during the winter months. Ocean shipments are therefore a better index of real exports and the only indication figures offer as to how sales for export are made.

Canadian wheat moves overseas much more evenly, month by month, than is generally realized and more evenly than does United States wheat. In 1923-4, before the full Pool was in operation, there was shipped from Canadian and United States ocean ports in the first quarter of the shipping year, September-November, 24.4 per cent of the total year's shipments of Canadian wheat, in the second quarter 26.8 per cent, in the third quarter 27.2 per cent, and in the last quarter 21.6 per cent; or, in the first half year, 51.2 per cent and in the second half 48.8 per cent. This was almost the ideal of orderly marketing and could not be improved upon by the Pool or by any other agency. Last year, 1925-6, total ocean shipments were approximately the same as in 1923-4; the Pool handled direct an important proportion; but the percentages by quarters were 30 per cent, 30.6 per cent, 19.6 per cent and 19.8 per cent; or 60.6 per cent in the first half year and 39.4 per cent in the second half. The movement was much less orderly than in 1923-4. The truth is, of course, that the causes of the distribution of shipments in the various stages of the movement lie deep in such elemental conditions as geography, the seasons and the nature of demand, and over these neither the Pool nor private traders can exert much influence.

Substituting a New System for the Open Market or Grain Exchange System—The Pool at once acquired memberships in the Winnipeg Exchange and makes use of all its facilities. It buys and sells in both cash and futures markets. Its officers frankly state that they trade on the Exchange to the full extent they find it profitable to do so. Moreover, the price basis governing the Pool's export business is the daily quotations on the Winnipeg Exchange.

In two respects the volume of trading on the Winnipeg Exchange has undoubtedly been somewhat affected. Because of the extent to which the Pool is able to finance on

farmers' money it does not require to hedge. Those who buy from the Pool, however, hedge as fully as ever before or they could not pay anything like market prices. Trading in the Winnipeg futures market has reached larger volume in the last two years than ever before and any effect of the absence of sales and purchases of Pool hedges cannot be traced.

Again, undoubtedly less cash wheat changes hands on the floor of the Winnipeg Exchange because such a large volume of actual grain comes into the hands of one exporter without purchase. With regard to sales, the General Sales Manager recently stated that in 1924-5 the Pool sold about 60 per cent of its cash wheat on the floor of the Exchange, while in 1925-6 this was reduced to less than 30 per cent. A year ago the Pool was laying great stress upon what it represented as its development of direct export business. There is nothing new or peculiar about direct export business and the Pool does nothing other exporters have not always been doing. The only change is that with one big exporter handling wheat that more than one exporter handled before, there are probably fewer intermediate transactions. There have been effects on the business of individual traders, but no change in the system. Whatever modification there may have been in cash trading, it is unquestionable that the Winnipeg Exchange has continued to maintain its position as the largest cash market in the world and to fully perform its function as a unit in the world's open market system.

Distribution of Payments—Before discussing the financial object of the Pool, mention should perhaps be made of its method of distributing payments—a fairly large payment on delivery, a second payment about the time spring work begins, a third at haying time and a fourth during the harvest of the new crop. The trade pays cash in full whenever the farmer wishes to sell. This change in the distribution of cash receipts must have effects on the system of collections and credits of all businesses, including the banks. More time must elapse, however, before it can be known what the economic effects really are, or whether it is good

for the farmer to have his time of spending regulated or to lose his initiative in the selling of his crop. So many powerful economic factors, some of them of world-wide range, have operated during the past few years, that no one could safely attribute to any minor factor any particular part of the general effect.

Larger Monetary Return to Farmers—To secure for the grower a larger cash return for his wheat than he was obtaining through the regular trade, the Pool was to perform all middleman functions and do so at cost, whereas the grain trade looked for some profits. The farmer was getting only the primary market price, less customary charges, whereas the Pool was to give him the export price, or the European price, less only bare costs. The Pool was also to operate country and terminal elevators at cost, which would add a further margin to the grower's price. In brief, the grower was to get all he had been getting, plus the profits of all middlemen and then something more because of the economies of handling vast quantities. These price benefits were quite apart from anything that might be gained by regulating sales or by influencing the world price basis upward.

In settling with the grower, the Pool states that it is paying him so many cents per bushel, basis Fort William, less certain specified deductions. That is, the Pool sets up, or at least suggests, a comparison with primary market prices. But it is clear that the total sums realized by the Pool include increments from many functions that do not enter into primary marketing at all, and that its earnings and primary prices are not fairly comparable. If the farmer invests his money in elevators and provides capital and credit for a trading and exporting company of his own, there should be a return to him greater than the price open to any farmer who makes no such investment and takes no such risks.

To the extent to which it operates country and terminal elevators, the Pool should save for the farmer, and add to his price, whatever was before the profits of elevator companies. The same is true of all the profits of export busi-

ness. The Pool has, by agreement, the right to mix any or all wheat delivered to it and should add to the farmer's price what would represent the profits of mixing. The Pool rapidly accumulates each season large sums of farmers' money, the difference between the partial advance payments and the full returns from cash sales, and on these sums it earns interest, or saves interest, which is a clear advantage over the trade, and this interest should be added to the farmers' price. At least on occasions, the Pool buys and sells wheat not delivered to it under the contract and operates in the futures market, and these transactions should yield a profit, which should be added to the Pool farmers' price.

Tested by the comparison it, itself, suggests, the Pool has not been able to establish that its total net earnings, from all sources, have been even as much, per bushel, as the net return it was easily possible during the past two years for any non-Pool farmer to obtain in the primary cash market alone. Many statistical problems would have to be worked out before the Pool basis could be absolutely measured as against open market returns so that there could be no controversy over the result. Two comparative tests have been applied in discussion in Western Canada. The first is between the Pool basis and the average of the daily closing cash prices during the market year. In support of this method it is said that the Pool principle, as originally laid down, was that sales should be evenly distributed and that if any farmer, or group of farmers, acted strictly on this principle in the open market, the average of the daily prices would be the average price secured; and further, that an average is not an unfairly high standard to set, since there are many more chances of getting at least the average price than of getting less than an average price.

Comparative figures on this basis during the past two years are as follows, taking only the leading grade in each grain: On No. 1 Northern wheat in 1924-5, the Pool basis was \$1.66 and the average of the daily open market prices \$1.71 $\frac{1}{8}$, or 5 $\frac{1}{8}$ cents higher; in 1925-6, with the final payment announced on October 15, the Pool basis is \$1.45 as against the open market average of \$1.51, or 6 cents higher. The

two coarse grain Pools operated only in 1925-6 and on 2 C.W. oats, the open market average was $2\frac{1}{8}$ cents higher than the Pool basis; on 3 C.W. barley, $3\frac{5}{8}$ cents higher; on 2 C.W. rye $1\frac{1}{4}$ cents higher; and on 1 N.W. flax 4 cents higher. In every case the Pool basis was below the market average.

The second comparative test was that applied last year when the 15 leading elevator companies instructed Price, Waterhouse & Co. to audit all their "account sales" for non-Pool farmers and determine the average price actually paid over by them. While this enquiry did not cover all wheat delivered by non-Pool farmers, it did cover all wheat for which these companies, instead of the Pool, were made the farmers' agent. The audit established that on every grade of wheat, except No. 4 Smutty and five grades of Rejected, the trade had paid more than the Pool basis, from a fraction of a cent per bushel up to 38.6 cents per bushel on No. 4 Kota wheat. When the Pool deductions were taken into account, the average difference in cash paid over was still more marked.

The above paragraphs are merely a statement of the discussion that has actually been taking place. The Pool has offered no alternative tests to support a claim that it has paid as much as, or more than, the open market. Under these conditions, and this is the only point it is desired to make, it can fairly be said that there is no evidence in the past two years that the Pool has been successful in its object of increasing the farmers' returns relatively to the open market.

In all references to the Pool price basis, it will be understood that this is the basis before any deductions are made and that the Pool makes special deductions to which there is no corresponding charge or holdback in the open trade. These special deductions are the elevator and commercial reserves and head office expenses. The two reserve funds are credited in ledger accounts to the individual farmers in accordance with the amount held back from each, but how these reserves will ultimately be retired has not been publicly stated. Head office charges are a current expense for which, of course, no credit is given. In 1924-5,

these special deductions averaged over 4 cents per bushel on all grades of wheat. Still another special deduction was made this year, the cost of carrying the grain after the period covered by the initial elevator and service charges, which was treated as a selling expense in the previous year. Complete details of the deductions on wheat for 1925-6 have not yet been announced.

Raising the Level of Prices—A claim that because of something done, prices are higher than they would otherwise have been, hardly admits either of proof or of disproof. The first step would be to establish that there have been price levels not fully explainable by other causes, and this has not been undertaken. At least it is true that there has been no absolute increase in prices, for the Pool basis in its second year was only \$1.45 as against \$1.66 in its first year.

In conclusion, it may be said that there are signs that important modifications of theories may be taking place in the minds of Pool leaders as a result of the experience of the past two years. The fact that emphasis is now being laid on elevator policy and very little is being said of the special objects which were so prominently treated in the period of organization, such as orderly marketing, eliminating speculation, stabilizing prices and substituting a new trading system, may be a negative sign of such modifications. But there is also positive evidence. For example, in the speech of Mr. McPhail, which has already been quoted from, occurred this important passage:

"Just a word about the selling policy. It will not be long before an announcement of the final average price to be paid for the past year is made. I am not prepared to say whether it will be satisfactory or not. It will depend upon the viewpoint of each individual in the country; but I would point out this, that there are factors other than the price of wheat which have to be considered in determining a sales policy for the year when you have close on 200,000,000 bushels of wheat to market over a period of 12 months. One of the most important factors outside the price is the demand, the time when the

buyer wants to buy. When there is a demand for anything, to some extent regardless of price, you have to take advantage of selling at that time. During the fall months of the year, when the Canadian wheat crop is going into a selling position in a larger volume than at any other time, there is a bigger demand for it. We, therefore, have to be influenced by that factor. If we are not, we may some time later in the season be caught with the bag in our hands. We have already had that experience to some extent."

Such a statement could not have been made by a Pool official two years ago, or even one year ago. The theory of orderly marketing must be modified in accordance with demand and local supply. A year ago, the Pool final payment was announced on September 5, although the Pool year for receiving wheat had terminated July 15, and in explanation of the delay it was stated that the direct export policy of the Pool required that it should hold over enough wheat at the end of a season to regularly supply its customers until new wheat was available. This year, with the same cut-off date, it took until October 15 to clean up and make the final payment, and it is recognized that, to some extent, the Pool was "left with the bag." If all signs bear an obvious significance, it may be that some of the Pool leaders have realized what experienced traders have always known—that strict adherence to a policy of orderly marketing puts a seller in the weakest possible position. It is much like dumping week by week after giving advance notice. If it be a fact that, comparatively, Pool returns have not been altogether satisfactory, it can only be because the Pool has not always sold, or been able to sell, to the best advantage. If the Pool is now adopting the policy of selling to the best advantage in accordance with demand and the quantities in selling position, it is back to the policy of private trade from which it attempted a departure.

One further effort is being made at present to create a new factor in marketing by the organizing and co-ordinating of Pools in all the principal exporting countries, which

would control the greater part of the world's export wheat and by concerted action might raise the general level of price. Canadian Pool leaders are now in Australia and the Argentine on this mission. No clear theory with respect to this difficult undertaking has been publicly expounded. If practical results are not achieved, it may very well be that the Canadian Wheat Pool will become but one big private trader, under the great private trading system the experience of the world has developed, with the potentialities and with all the perils of bigness.

In view of all these considerations, whatever may have been its sociological accomplishments, in economics the Pool is still an experiment.